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## MILLENNIUM CHALLENGE CORPORATION

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Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2013

AGENCY: Millennium Challenge Corporation

ACTION: Notice

SUMMARY: This report to Congress is provided in accordance with Section 608(b) of the Millennium Challenge Act of 2003, as amended, 22 U.S.C. 7707(b) (the “Act”).

Dated: September 19, 2012

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Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance in Fiscal Year 2013

### Summary

This report to Congress is provided in accordance with section 608(b) of the Millennium Challenge Act of 2003, as amended, 22 U.S.C. 7707(b) (the Act).

The Act authorizes the provision of Millennium Challenge Account (MCA) assistance to countries that enter into a Millennium Challenge Compact with the United States to support policies and programs that advance the prospects of such countries achieving lasting economic growth and poverty reduction. The Act requires the Millennium Challenge Corporation (MCC) to take a number of steps in determining what countries will be selected as eligible for MCA compact assistance for fiscal year (FY) 2013 based on the countries’ demonstrated commitment to just and democratic governance, economic freedom, and investing in their people, as well as MCC’s opportunity to reduce poverty and generate economic growth in the country. These steps include the submission of reports to the congressional committees specified in the Act and publication of notices in the Federal Register that identify:

The countries that are “candidate countries” for MCA assistance for FY 2013 based on per capita income levels and eligibility to receive assistance under U.S. law. This report identifies countries that would be candidate countries but for specified legal prohibitions on assistance (section 608(a) of the Act; 22 U.S.C. 7707(a));

The criteria and methodology that MCC’s Board of Directors (Board) will use to measure and evaluate policy performance of the candidate countries consistent with the requirements of section 607 of the Act (22 U.S.C. 7706) in order to determine “eligible countries” from among the “candidate countries” (section 608(b) of the Act); and

The list of countries determined by the Board to be “eligible countries” for FY 2013, with justification for eligibility determination and selection for compact negotiation, including those eligible countries that the Board will seek to enter into compacts (section 608(d) of the Act).

This report sets out the criteria and methodology to be applied in determining eligibility for FY 2013 MCA assistance.

### Criteria and Methodology for FY 2013

The Board will base its selection of eligible countries on several factors, including:

The country’s overall performance in the three broad policy categories of Ruling Justly, Encouraging Economic Freedom, and Investing in People;

MCC’s opportunity to reduce poverty and generate economic growth in a country;

Performance during implementation of a prior compact (if selecting a country to be eligible for a subsequent compact); and

The availability of MCC funds.

Section 607 of the Act requires that the Board’s determination of eligibility be based “to the maximum extent possible, upon objective and quantifiable indicators of a country’s demonstrated commitment” to the criteria set out in the Act.

For the purpose of assessing countries’ policy performance, MCC strives to ensure countries are consistently and appropriately compared against their income peers. Since its founding, MCC has relied on the historical ceiling for eligibility as set by the World Bank’s International Development Association (IDA) to divide the pool of candidate countries into two groups for the purpose of comparative analysis on the policy performance indicators (described in the section immediately below). A Scorecard low income country (LIC) is defined as a country with a per capita income on or below IDA’s historical ceiling for eligibility (\$1,945 for FY 2013) and will continue to be compared against other Scorecard LICs. A Scorecard lower middle income country (LMIC) is defined as a country with a per capita income above the IDA’s historical ceiling for eligibility, but below the World Bank’s lower middle income country threshold (\$1,946-\$4,035 for FY13) and will continue to be compared against other Scorecard LMICs.<sup>1</sup>

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<sup>1</sup> In December 2011, MCC’s FY 2012 appropriations bill, enacted as part of the Consolidated Appropriations Act, 2012 (Pub. L. 112-74) (FY 2012 Appropriations Act), included language at

This will ensure poorer countries are not disadvantaged by competing against more wealthy countries and provide relative stability and consistency in countries' assessments from previous years.

#### Indicators

In FY 2013 the Board will use 20 indicators to assess the policy performance of individual countries. These indicators are grouped under the three policy categories listed in Table 1. A description of each indicator, including definitions and sources, can be found in Annex A.

TABLE 1.

- (1) Ruling Justly: Political Rights, Civil Liberties, Freedom of Information, Government Effectiveness, Rule of Law, Control of Corruption. (Sources: Freedom House, FRINGE Special, Open Net Initiative, World Bank/Brookings)
- (2) Encouraging Economic Freedom: Fiscal Policy, Inflation, Regulatory Quality, Trade Policy, Gender in the Economy, Land Rights and Access, Access to Credit, Business Start-Up (Sources: IMF, World Bank/Brookings, Heritage Foundation, IFC, International Fund for Agricultural Development)
- (3) Investing in People: Public Expenditure on Health, Total Public Expenditure on Primary Education, Natural Resource Protection, Immunization Rates, Girls' Education (Primary Completion Rate for Scorecard LICs, Secondary Education Enrollment for Scorecard LMICs), Child Health. (Sources: World Health Organization, UNICEF, UNESCO, National Sources, CIESIN/YCLEP)

To determine eligibility for a particular candidate country, the Board will consider whether a country performs above the median or absolute threshold on at least half of the indicators; above the median on the Control of Corruption indicator; and above the absolute threshold on either the Civil Liberties or Political Rights indicators. Indicators with absolute thresholds in lieu of a median include: (i) Inflation, on which a country's inflation rate must be under a fixed ceiling of 15 percent; (ii) Immunization Rates (Scorecard LMICs only), on which a Scorecard LMIC must have immunization coverage above 90 percent; (iii) Political Rights, on which countries must score above 17; and (iv) Civil Liberties, on which countries must score above 25. The Board will also consider whether a country performs substantially worse in any policy category than they do on the overall scorecard, and countries must meet a minimum standard of passing one indicator in each category.

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MCC's request to alter the way the agency defines LICs and LMICs for the purposes of candidacy and funding. MCC implemented this change through the FY 2013 Candidate Country Report, approved by the board on August 21, 2012. This change affects how MCC may fund countries selected as eligible and brought desired stability to the funding stream. To protect against unnecessary instability or income bias to the selection system, for Scorecard purposes, the agency will continue to use the historical IDA ceiling as described above.

## Considerations of Prior Compact Implementation

Countries that have completed their compact, or are within 18 months of compact completion, may be considered for eligibility for a subsequent compact. To determine eligibility for subsequent compacts, the Board will consider the country's policy performance using the methodology and criteria described above, as well as the country's track record of performance implementing its prior compact.

To assess implementation of a prior compact, the Board will consider the nature of the country's partnership with MCC; the degree to which the country has demonstrated a commitment and capacity to achieve program results; and the degree to which the country has implemented the compact in accordance with MCC's core policies and standards.

In FY 2013, the Board will assess countries on their performance on the prior compact through supplemental information covering the categories and issues shown in Table 2. A more detailed list of compact performance considerations and MCC reporting sources is provided in Annex B.

TABLE 2.

(1) Country Partnership: Political Will, Management Capacity (Sources: Quarterly reporting, Survey of MCC staff)

(2) Program Results: Financial Results, Project Results, Target Achievements (Sources: Indicator tracking tables, Quarterly reporting, Survey of MCC staff, Impact Evaluations)

(3) Adherence to Standards: Commitment to MCC Operational Guidelines and Policies, Audit Findings (Sources: Quarterly reporting, GAO Audits, OIG Audits, Survey of MCC staff)

## Other Considerations for the Board

### Supplementary Information

Consistent with the Act, the indicators will be the predominant basis for determining which countries will be eligible for MCA assistance. However, the Board may exercise discretion when evaluating performance on the indicators and determining a final list of eligible countries. Where necessary, the Board also may take into account other quantitative and qualitative information (supplemental information) to determine whether a country performed satisfactorily in relation to its peers in a given income category. There are elements of the criteria set out in the Act for which there is either limited quantitative information, or no well-developed performance indicator. Until such data and/or indicators are developed, the Board may rely on additional data and qualitative information to assess policy performance. For example, the State Department Human Rights Report contains qualitative information to make an assessment on a variety of criteria outlined by Congress, such as the rights of people with disabilities, the treatment of women and children, workers' rights, and human rights. Similarly, MCC may consult a variety of third party sources to better understand the domestic potential for private sector led investment and growth.

The Board may also consider whether supplemental information should be considered to make up for data gaps, lags, trends, or other weaknesses in particular indicators. As additional information in the area of corruption, the Board may consider how a country is evaluated by

supplemental sources like Transparency International's Corruption Perceptions Index, the Global Integrity Report, and the Extractive Industry Transparency Initiative, among others, as well as on the defined indicator.

### Approach to Income Classification Transition

Each year a number of countries shift income groups, and some countries formerly classified as Scorecard LIC suddenly face new, higher performance standards in the Scorecard LMIC group. As a result, they typically perform worse relative to other Scorecard LMICs, than they did compared to other Scorecard LICs, even if in absolute terms they maintained or improved their performance in the previous year. To address the challenges associated with sudden changes in performance standards for these countries, MCC has adopted an approach to income category transition whereby the Board may consider the indicator performance of countries that transitioned from the Scorecard LIC to the Scorecard LMIC country category both relative to their Scorecard LMIC peers as well as in comparison to the current fiscal year's Scorecard LIC pool for a period of three years.

### Continuing Policy Performance

Partner countries that are developing or implementing a compact are expected to seek to maintain and improve policy performance. MCC recognizes that partner countries may not meet the eligibility criteria from time to time due to a number of factors, such as: (i) changes in the peer group median; (ii) transition into a new income category (e.g., from Scorecard LIC to Scorecard LMIC categories); (iii) numerical declines in scores that are within the statistical margin of error; (iv) slight declines in policy performance; (v) revisions or corrections of data; (vi) introduction of new sub-data sources; or (vii) changes in the indicators used to measure performance. None of these factors alone signifies a significant policy reversal or warrants suspension or termination of eligibility and/or assistance.

However, countries that demonstrate a significant policy reversal may be issued a warning or face suspension or termination of eligibility and/or assistance. According to the Act, "[a]fter consultation with the Board, the Chief Executive Officer may suspend or terminate assistance in whole or in part for a country or entity ... if ... the country or entity has engaged in a pattern of actions inconsistent with the criteria used to determine the eligibility of the country or entity ...." Consistent with the Act and MCC's Policy on Suspension and Termination, this pattern of actions does not need to be captured in the indicators for MCC to take action.

### Relationship to Legislative Criteria

Within each policy category, the Act sets out a number of specific selection criteria. As indicated in Table 1, a set of objective and quantifiable policy indicators is used to determine eligibility for MCA assistance and to measure the relative performance by candidate countries against these criteria. The Board's approach to determining eligibility ensures that performance against each of these criteria is assessed by at least one of the objective indicators. Most are addressed by multiple indicators. The specific indicators appear in parentheses next to the corresponding criterion set out in the Act.

Section 607(b)(1): Just and democratic governance, including a demonstrated commitment to --  
promote political pluralism, equality and the rule of law (Political Rights, Civil Liberties, Rule of Law, and Gender in the Economy);

respect human and civil rights, including the rights of people with disabilities (Political Rights, Civil Liberties, and Freedom of Information);

protect private property rights (Civil Liberties, Regulatory Quality, Rule of Law, and Land Rights and Access);

encourage transparency and accountability of government (Political Rights, Civil Liberties, Freedom of Information, Control of Corruption, Rule of Law, and Government Effectiveness);  
and

combat corruption (Political Rights, Civil Liberties, Rule of Law, Freedom of Information, and Control of Corruption);

Section 607(b)(2): Economic freedom, including a demonstrated commitment to economic policies that --

encourage citizens and firms to participate in global trade and international capital markets (Fiscal Policy, Inflation, Trade Policy, and Regulatory Quality);

promote private sector growth (Inflation, Business Start-Up, Fiscal Policy, Land Rights and Access, Access to Credit, Gender in the Economy, and Regulatory Quality);

strengthen market forces in the economy (Fiscal Policy, Inflation, Trade Policy, Business Start-Up, Land Rights and Access, Access to Credit, and Regulatory Quality); and

respect worker rights, including the right to form labor unions (Civil Liberties and Gender in the Economy); and

Section 607(b)(3): Investments in the people of such country, particularly women and children, including programs that --

promote broad-based primary education (Girls' Primary Completion Rate, Girls' Secondary Education Enrollment Rate, and Total Public Expenditure on Primary Education);

strengthen and build capacity to provide quality public health and reduce child mortality (Immunization Rates, Public Expenditure on Health, and Child Health); and

promote the protection of biodiversity and the transparent and sustainable management and use of natural resources (Natural Resource Protection).

## ANNEX A

### INDICATOR DEFINITIONS

The following indicators will be used to measure candidate countries' demonstrated commitment to the criteria found in section 607(b) of the Act. The indicators are intended to assess the degree to which the political and economic conditions in a country serve to promote broad-based sustainable economic growth and reduction of poverty and thus provide a sound environment for the use of MCA funds. The indicators are not goals in themselves; rather, they are proxy measures of policies that are linked to broad-based sustainable economic growth. The indicators were selected based on (i) their relationship to economic growth and poverty reduction; (ii) the number of countries they cover; (iii) transparency and availability; and (iv) relative soundness and objectivity. Where possible, the indicators are developed by independent sources. Listed below is a brief summary of the indicators (a detailed rationale for the adoption of these indicators can be found in the Public Guide to the Indicators on MCC's public Website at [www.mcc.gov](http://www.mcc.gov)):

#### Ruling Justly

**Political Rights:** Independent experts rate countries on the prevalence of free and fair elections of officials with real power; the ability of citizens to form political parties that may compete fairly in elections; freedom from domination by the military, foreign powers, totalitarian parties, religious hierarchies and economic oligarchies; and the political rights of minority groups, among other things. Source: Freedom House

**Civil Liberties:** Independent experts rate countries on freedom of expression; association and organizational rights; rule of law and human rights; and personal autonomy and economic rights, among other things. Source: Freedom House

**Freedom of Information:** Measures the legal and practical steps taken by a government to enable or allow information to move freely through society; this includes measures of press freedom, national freedom of information laws, and the extent to which a county is filtering internet content or tools. Source: Freedom House / FRINGE Special/ Open Net Initiative

**Government Effectiveness:** An index of surveys and expert assessments that rate countries on the quality of public service provision; civil servants' competency and independence from political pressures; and the government's ability to plan and implement sound policies, among other things. Source: Worldwide Governance Indicators (World Bank/Brookings)

**Rule of Law:** An index of surveys and expert assessments that rate countries on the extent to which the public has confidence in and abides by the rules of society; the incidence and impact of violent and nonviolent crime; the effectiveness, independence, and predictability of the judiciary; the protection of property rights; and the enforceability of contracts, among other things. Source: Worldwide Governance Indicators (World Bank/Brookings)

**Control of Corruption:** An index of surveys and expert assessments that rate countries on: "grand corruption" in the political arena; the frequency of petty corruption; the effects of corruption on the business environment; and the tendency of elites to engage in "state capture," among other things. Source: Worldwide Governance Indicators (World Bank/Brookings)

## Encouraging Economic Freedom

**Fiscal Policy:** The overall budget balance divided by GDP, averaged over a three-year period. The data for this measure comes primarily from IMF country reports or, where public IMF data are outdated or unavailable, are provided directly by the recipient government with input from U.S. missions in host countries. All data are cross-checked with the IMF's World Economic Outlook database to try to ensure consistency across countries and made publicly available.

Source: International Monetary Fund Country Reports, National Governments, and the International Monetary Fund's World Economic Outlook Database

**Inflation:** The most recent average annual change in consumer prices. Source: The International Monetary Fund's World Economic Outlook Database

**Regulatory Quality:** An index of surveys and expert assessments that rate countries on the burden of regulations on business; price controls; the government's role in the economy; and foreign investment regulation, among other areas. Source: Worldwide Governance Indicators (World Bank/Brookings)

**Trade Policy:** A measure of a country's openness to international trade based on weighted average tariff rates and non-tariff barriers to trade. Source: The Heritage Foundation

**Gender in the Economy:** An index that measures the extent to which laws provide men and women equal capacity to generate income or participate in the economy, including the capacity to access institutions, get a job, register a business, sign a contract, open a bank account, choose where to live, and to travel freely. Source: International Finance Corporation

**Land Rights and Access:** An index that rates countries on the extent to which the institutional, legal, and market framework provide secure land tenure and equitable access to land in rural areas and the time and cost of property registration in urban and peri-urban areas. Source: The International Fund for Agricultural Development and the International Finance Corporation

**Access to Credit:** An index that rates countries on rules and practices affecting the coverage, scope, and accessibility of credit information available through either a public credit registry or a private credit bureau; as well as legal rights in collateral laws and bankruptcy laws. Source: International Finance Corporation

**Business Start-Up:** An index that rates countries on the time and cost of complying with all procedures officially required for an entrepreneur to start up and formally operate an industrial or commercial business. Source: International Finance Corporation

## Investing in People

**Public Expenditure on Health:** Total expenditures on health by government at all levels divided by GDP. Source: The World Health Organization

**Total Public Expenditure on Primary Education:** Total expenditures on primary education by government at all levels divided by GDP. Source: The United Nations Educational, Scientific and Cultural Organization and National Governments



Natural Resource Protection: Assesses whether countries are protecting up to 10 percent of all their biomes (e.g., deserts, tropical rainforests, grasslands, savannas and tundra). Source: The Center for International Earth Science Information Network and the Yale Center for Environmental Law and Policy

Immunization Rates: The average of DPT3 and measles immunization coverage rates for the most recent year available. Source: The World Health Organization and the United Nations Children's Fund

Girls Education:

Girls' Primary Completion Rate: The number of female students enrolled in the last grade of primary education minus repeaters divided by the population in the relevant age cohort (gross intake ratio in the last grade of primary). Scorecard LICs are assessed on this indicator. Source: United Nations Educational, Scientific and Cultural Organization

Girls Secondary Enrollment Education: The number of female pupils enrolled in lower secondary school, regardless of age, expressed as a percentage of the population of females in the theoretical age group for lower secondary education. Scorecard LMICs will be assessed on this indicator instead of Girls Primary Completion Rates. Source: United Nations Educational, Scientific and Cultural Organization

Child Health: An index made up of three indicators: (i) access to improved water, (ii) access to improved sanitation, and (iii) child (ages 1-4) mortality. Source: The Center for International Earth Science Information Network and the Yale Center for Environmental Law and Policy

## ANNEX B

### SUBSEQUENT COMPACT CONSIDERATIONS

MCC reporting and data in the following chart are used to assess compact performance of MCC partners nearing the end of compact implementation. Some reporting used for assessment may contain sensitive information and adversely affect implementation or MCC-partner country relations. This information is for MCC's internal use and is not made public. However, key implementation information is summarized in compact status and results reports that are published quarterly on MCC's Website under MCC country programs ([www.mcc.gov/pages/countries](http://www.mcc.gov/pages/countries)) or monitoring and evaluation ([www.mcc.gov/pages/activities/activity/monitoring-and-evaluation](http://www.mcc.gov/pages/activities/activity/monitoring-and-evaluation)) Webpages.

(1) COUNTRY PARTNERSHIP: Includes Political Will (Status of major conditions precedent, Program oversight/ implementation - project restructures and partner response to MCA capacity issues, Political independence of MCA) and Management Capacity (Project management capacity, Project performance, Level of MCC intervention/oversight, Relative level of resources required)

MCC Reporting/Data Source: Quarterly implementation reporting, Quarterly results reporting, Survey of MCC staff.

Published Documents: Quarterly results published as "Table of Key Performance Indicators" (available by country at <http://1.usa.gov/QoduNI>) Survey questions to be posted at <http://1.usa.gov/PE0xCX>.

(2) PROGRAM RESULTS: Includes Financial Results (Commitments, Disbursements), Project Results (Output, outcome, objective targets; MCA commitment to 'focus on results;' MCA cooperation on impact evaluation; Percent complete for process/outputs; Relevant outcome data; Details behind target delays), and Target Achievements

MCC Reporting/Data Source: Indicator tracking tables, Quarterly financial reporting, Quarterly implementation reporting, Quarterly results reporting, Survey of MCC staff, Impact evaluations.

Published Documents: Monitoring and Evaluation Plans (available by country at <http://1.usa.gov/QoduNI>), Quarterly Status Reports (available by country at <http://1.usa.gov/NfEbcI>), Quarterly results published as "Table of Key Performance Indicators" (available by country at <http://1.usa.gov/QoduNI>), Survey questions to be posted at <http://1.usa.gov/PE0xCX>.

(3) ADHERENCE TO STANDARDS: Procurement, Environmental and social, Fraud and corruption, Program closure, Monitoring and evaluation, All other legal provisions.

MCC Reporting/ Data Source: Audits (GAO and OIG), Quarterly implementation reporting, Survey of MCC staff.

Published Documents: Published OIG and GAO Audits, Survey questions to be posted at <http://1.usa.gov/PE0xCX>

(4) COUNTRY SPECIFIC: Sustainability, Implementation Entity, MCC Investments.

MCC Reporting/ Data Source: Quarterly implementation reporting, Quarterly results reporting, Survey of MCC staff

Published Documents: Quarterly results published as “Table of Key Performance Indicators” (available by country at <http://1.usa.gov/QoduNI> ), Survey questions to be posted: <http://1.usa.gov/PE0xCX> .

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